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PUBLIC UTILITIES
COMMISSION

Mr. Carlito Caliboso
Chairman
Public Utilities Commission
465 S. King Street, Suite 103
Honolulu, Hawaii 96813

Dear Chair Caliboso:

Subject: Docket 05-0315 Hawaii Electric Light Company Rate Case, on the Matter of the Automatic Fuel Rate Adjustment Clause

I am writing to the Commission to express my views on the importance of the automatic fuel rate adjustment clause as it relates to compensation for regulated electric utilities in the State of Hawaii.

As the Commission is aware, Act 162, SLH 2006, requires that the Commission examine certain factors before an automatic fuel rate adjustment (or energy cost adjustment clause – ECAC – as labeled by the HECO Companies) can be approved. Such a review includes consideration of whether the clause provides sufficient incentive for the electric utility to encourage greater use of renewable energy.

During the development of the administration's *Energy for Tomorrow* package, it became clear to me that consumers of electricity in Hawaii are deeply affected by continued dependence on imported oil. When the electric utilities have the ability to automatically pass through all of these fuel costs to the ratepayer, the risks of oil price volatility and price increases are borne by the consuming public, not the utility. I was concerned about the distortion this can create since there is no incentive for the utility to develop renewable energy resources as long as this practice is allowed to continue. Further, while the percent of customer costs affected by the ECAC varies by county, we have seen examples of the fuel adjustment costs comprising almost 50% of residential electricity costs.

I understand that the Commission is considering this matter in the rate case proceedings pending before it, including this HELCO docket. I have been advised that there is a stipulation pending to accept the ECAC "as is" in this HELCO docket. I am told the financial strength of the utility was at the core of these concerns, amplified by the recent downgrade in the utility's bond rating and the immediate $12 million write-off necessitated by HELCO's stipulation with the Consumer Advocate of the allowance for funds used during construction for the Keahole conventional-fueled power plant in Kona. The Consumer Advocate advised me that while they are agreeable to the HELCO stipulation to continue the ECAC in this instance, they sought to ensure that it does not represent a precedent in pending or future rate cases, including the HECO and MECO rate cases before the Commission.

While some of those concerns raised in the HELCO case are understandable and may have cost implications to ratepayers, I remain convinced that how ECAC is handled in the long-term will be critically important to encourage increased investment in and development of renewable energy facilities to supply electricity. I remain concerned about the inability of electricity consumers to have direct control over these costs (except for their own efficiency investments) so long as the electric utility continues to rely on petroleum products for their fuel. Further, I believe that the ECAC remains the primary disincentive toward renewable energy development.

I urge the Commission to look seriously at changing this practice of the complete and automatic pass-through of fuel costs by the utility. Sharing risk by reducing the percentage allowed by the utility to recover fuel costs would send a powerful signal to invest in facilities not burdened by rising and unpredictable oil-based fuels. It could encourage utilities to turn to more stable cost assets such as renewable energy facilities that do not have the disadvantage of unpredictable and rising petroleum prices. For example, you may wish to investigate a program to change the ECAC gradually over time, tied to performance targets based on renewable energy that displaces petroleum-fueled facilities. Such a program might be designed with adequate policy signals to the utility and with sufficient safeguards to prevent unrecoverable and damaging financial effects that could not be tolerated by the utility over the long-term.

No other state in the United States is so dependent on oil for the generation of its electricity. No other consumers of electricity are so affected by the automatic fuel adjustment clause. No other state should be so motivated to change this practice in the interest of long-term consumer benefit and energy security.

This issue is of critical importance to me, and I urge your expeditious review and action.

Sincerely,

LINDA LINGLE